



The Commonwealth of Massachusetts

Office of the Commissioner of Banks

One South Station

Boston, Massachusetts 02110

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DANIEL C. CRANE
DIRECTOR, OFFICE OF
CONSUMER AFFAIRS AND
BUSINESS REGULATION

STEVEN L. ANTONAKES
COMMISSIONER OF BANKS

January 24, 2008

The Honorable Steven T. James
Clerk of the House of Representatives
State House, Room 145
Boston, Massachusetts 02133

Dear Mr. James:

Enclosed for filing with the General Court, please find the Division of Banks' (the "Division") 2006 Annual Report pursuant to General Laws chapter 167, section 13. Also included are summary comments on legislation passed during the year which affected the Division or entities within its jurisdiction. Other significant events are also noted.

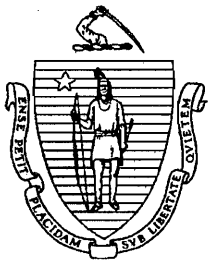
I am pleased to forward this Annual Report in accordance with the amendments made to section 13 of chapter 167 of the General Laws. If there are any questions on this Report, please contact me at (617)956-1510 or the Division's Legal Unit at (617)956-1520.

Very truly yours,

A handwritten signature in black ink, appearing to read "S. Antonakes", written over a horizontal line.

Steven L. Antonakes
Commissioner of Banks





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To Whom It May Concern:

The financial services industry in Massachusetts continues to change rapidly and grow increasingly more complex. Consolidation, new technologies, and innovative product offerings will continue to impact the Division of Banks' ("Division") regulated industries and the consumers who utilize their services. The Division will continue to utilize the examination process and other supervisory measures to identify trends and assess the financial condition and compliance programs of its regulated entities.

In 2006, foreclosures began to increase significantly for the first time in many years. In an effort to combat weakening underwriting standards and growing incidences of fraud, the Division undertook several initiatives including increased consumer guidance, changes in regulation, the issuance of numerous enforcement actions, and hosting a mortgage summit.

The following pages include an agency profile, an overview of the industries the Division supervises, a summary of transactions and legislative and regulatory changes, a summary of salient market and financial data for Trust Companies, Savings Banks, Co-operative Banks, and Credit Unions, as well as consolidated financial data and institution specific managerial staff and branch locations.

As always, I would welcome your suggestions on additional information or analyses that would be helpful to you, and any other improvements you would recommend.

Very truly yours,

A stylized, handwritten signature of Steven L. Antonakes.

Steven L. Antonakes
Commissioner of Banks



I. INTRODUCTION

The Division of Banks' (the "Division") mission is to advance the public interest with the highest level of integrity and innovation by ensuring a sound, competitive, and accessible banking and financial services environment. Its 152 managers, examiners, and support staff are responsible for conducting financial safety and soundness, consumer compliance, community reinvestment act compliance, information technology, and trust examinations of these institutions. Accordingly, the Division plays a key role in maintaining depositor confidence in the State's banking system, as well as fostering a positive impact on the Commonwealth's economy.

The Division traces its origin to 1784 with the chartering of The Bank of Massachusetts, the forerunner of the former First National Bank of Boston. Records dating back to 1839 reveal the existence of 118 Massachusetts banks with total combined assets of \$53 million. Today, the Division supervises 264 state-chartered banks and credit unions with total combined assets in excess of \$235 billion.

The Division also is charged with licensing and examining over 5,000 non-bank financial entities, including mortgage brokers and lenders, finance companies, check cashers, money transmitters, and debt collectors. These organizations are also regularly examined for financial safety and soundness and compliance with various consumer protection laws and regulations.

2006 Accomplishments

- Convened a Mortgage Summit to develop a foreclosure prevention strategy.
- Distributed a brochure on the risks associated with interest only loan products.
- Issued an Industry Letter regarding reduced documentation mortgage loans.
- Issued 48 Cease and Desist activity orders against out-of-state payday lenders
- Implemented emergency regulations regarding prohibited abusive acts and practices by mortgage brokers and mortgage lenders.
- Refined the anti-money laundering program to enhance the Division's supervision of depository institutions and money service businesses. The improved program includes enhanced techniques to detect unlicensed and illegal activity.
- Completed 253 bank and credit union examinations and 558 examinations of non-bank licensees.
- Issued 4,156 license renewals and processed 1,230 new license applications.
- Completed 731 bank, credit union, licensee, and various other approval requests and issued 71 legal opinions.
- Resolved 770 consumer complaints and secured reimbursements on behalf of 75 consumers totaling over \$180,000.

2007 Objectives

- Implement the Mortgage Summit Working Group's recommendations.

structure would be appropriate for first time homebuyers or those who marginally qualify for credit.

As has been chronicled in local media reports, our examinations have found instances in which income stated on reduced documentation loans bares little resemblance to the income provided on an initial full documentation loan application. Some of the most egregious cases featured altered W-2s and pay stubs and outright admissions that income was purposely inflated or included income from individuals not listed on the mortgage application. The unfortunate reality is that the growing securitization of mortgage loans and allowance for reduced documentation has not only resulted in additional mortgage credit being available, but has also had the effect, in some cases, of significantly loosening prudent underwriting standards.

In 2006, the Division issued nearly 20 cease and desist orders essentially shuttering companies found to be intentionally overstating income on reduced documentation loans or engaging in other types of deceptive practices. The Division issued an industry letter in September to all licensed mortgage lenders and brokers and financial institutions relative to reduced documentation loans indicating that severe action will be taken should evidence of mortgage fraud be found. In addition, the Division issued emergency amendments to our regulations governing mortgage lenders and brokers, significantly expanding the number of existing prohibited acts and practices that constitute grounds for the issuance of cease and desist orders and license suspension or revocation.

Long awaited Federal Financial Institutions Examination Council (FFIEC) guidance on non-traditional mortgages was finalized late in 2006 and provides sound information to credit unions and banks relative to the credit risk and consumer protection issues that may arise when originating these loans. Specifically, the guidance cautions lenders not to simply qualify borrowers based upon their ability to repay loans while introductory or interest only payments are required. Instead, the guidance notes that lenders should evaluate a borrower's ability to repay the loan at full maturity at the fully indexed rate as part of their overall underwriting decision. The guidance also notes the need for enhanced communication with consumers to ensure borrowers comprehend the potential risks and benefits associated with interest only loans and option ARMS.

Whereas the FFIEC is comprised solely of federal bank and credit union regulators, the guidance does not apply to non-bank, state licensed mortgage lenders and brokers. However, in an effort to ensure a level playing field is maintained within the mortgage market and that the consumer protections within the guidance are enforced uniformly, the Division plans to adopt parallel guidance to ensure all lenders are similarly covered shortly.

B. CSBS/AARMR Nationwide Database Initiative

In another effort to improve the supervision of non-bank mortgage lenders and brokers, the Division continues to dedicate significant resources to the development of a nationwide database of mortgage professionals. Throughout 2006, the Division worked with the Conference of State Bank Supervisors ("CSBS"), the American Association of

Residential Mortgage Regulators ("AARMR"), and other state banking and mortgage regulatory agencies across the country toward creating uniform licensing applications and an online license/registration system for mortgage brokers and mortgage lenders. The system is intended to increase accountability throughout the industry, help fight predatory lending and mortgage fraud, reduce regulatory burden on the mortgage industry, and streamline the licensing process for state agencies.

On December 22, 2005, the Division was one of the first jurisdictions in the nation to implement the uniform application forms, which were created as part of the Nationwide Mortgage Licensing System ("NMLS") initiative throughout 2004 and 2005. During the first part of 2006, the Division tracked the industry responses and efficiencies as they relate to the Division's processing of mortgage company license applications, as well as provided guidance to other state banking and mortgage regulatory agencies which implemented the forms subsequently.

During 2006, substantial progress was made toward the development of the NMLS. The Division devoted a great amount of resources to this process, including making available representatives from the Division staff to serve on and head numerous committees, and devoting its Chief Director of Licensing to serve as a Subject Matter Expert to work directly with CSBS and the National Association of Securities Dealers ("NASD"), the developer of NMLS. In addition, Commissioner Antonakes was selected to serve on the five-member Board of Managers of the State Regulatory Registry ("SRR"), the limited-liability company formed on September 21, 2006, to run the NMLS. The Division is confirmed as one of the jurisdictions which will join the NMLS upon its launch date in January 2008, and will continue to devote resources to achieve the goals of the initiative.

C. Mortgage Summit

Finally, in an effort to develop a comprehensive strategy to address increasing foreclosure rates, the Division hosted a mortgage summit in November. The aforementioned forecasts of rising interest rates and a slowing real estate market will only further challenge homeowners. Payments on both traditional and non traditional adjustable rate mortgages will reset upwards and the ability to refinance these mortgages and possibly consolidate other consumer debt may no longer be a viable means of lowering monthly debt payments.

Nearly 50 individuals representing 29 government, industry, and nonprofit organizations attended the Mortgage Summit with the stated goal of seeking to address the increasing number of mortgage foreclosures across Massachusetts and to develop a statewide foreclosure prevention strategy that will put into place lasting measures to help consumers confronted with the loss of their homes. Following the Summit, two Working Groups were established to focus on Rules and Enforcement and Consumer Education and Foreclosure Assistance. The goal of the Working Groups is to take the ideas and suggestions from the Summit and develop specific recommendations. We have established a March 31 deadline for the Working Groups to develop an action plan and detailed recommendations.

III. FINANCIAL INSTITUTION SUPERVISION

As of December 2006, the state-chartered banking industry in Massachusetts is in sound financial condition. Capital levels, which represent an institution's ability to absorb losses and fund growth, remain solid. At the same time, earnings performance has been sufficient to continue to augment capital levels. In 2006, interest rates continued to climb and were increased by 100 basis points by the Federal Reserve Bank in an attempt to assuage inflationary concerns. As a result, the interest rate environment continued to challenge management teams to improve earnings through alternative means.

Asset quality remains sound as well, with minimal delinquency levels reported in almost all loan categories. However, slight increases in some delinquency categories were noted as the housing market reacts to changes in the market place. Credit for the strong asset quality can be mainly attributed to satisfactory underwriting and loan administration practices. In 2006, as in 2005, realized gains in the sale of investment securities assisted in the stabilization of earnings performance and capital levels.

Liquidity levels remained strong again in 2006. Liquidity levels should remain plentiful as many institutions experienced growth in deposit accounts, due largely to consolidation within the industry and abundant access to secondary sources. At the same time, exposure to interest rate risk has been mitigated through the implementation of prudent investment strategies. Nevertheless, the ability of bank executives to manage their balance sheets will remain a focus of the Division's supervision program, as prior interest rate increases have impacted interest margins.

Finally, the industry's Boards of Directors/Trustees and senior operating management are considered capable and seasoned. They have developed and implemented operating policies, procedures, strategies, and risk management practices that provide a framework for sound operations. Additionally, amidst the challenging environment, a greater reliance on non-interest income was noted during 2006. At the same time, expansion through branching and increased emphasis on development and construction lending will challenge bank management teams to ensure that they continue to employ the sound underwriting and credit administration practices that helped them weather the economic downturn.

Compliance with the Bank Secrecy Act (BSA) and Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (USA PATRIOT Act) continued to be a priority for the Division's examination staff. In the wake of the tragic events of September 11, 2001, Congress enacted the USA PATRIOT Act in part to stem the flow of funds to terrorists. The Division continues to enhance its anti-money laundering examination practices and programs to identify illicit and suspicious activities. To ensure that these activities are identified and addressed, the Division has provided advanced training to all examiners and the majority of managers. Through collaborative partnerships with industry groups and other state and federal regulators, the Division's examination staff has the necessary tools to properly monitor compliance with these regulations. To further enhance the Division's ability to monitor compliance with these regulations, information-sharing agreements were entered into

with the Financial Crimes Enforcement Network and the Internal Revenue Service. These agreements provide for an exchange of relevant information on the variety of entities supervised by the Division.

IV. SUMMARY OF MAJOR CORPORATE TRANSACTIONS

The number of state-chartered institutions decreased by two during 2006, from 266 financial institutions to 264 financial institutions. Two new banks were chartered and opened for business during the year. There were four transactions involving mergers between state-chartered institutions. During the year there were two transactions in which federally-chartered institutions merged with and into state-chartered institutions. This narrative and the total of state-chartered institutions and branches reflect transactions that were consummated during 2006, and do not reflect those transactions that were approved but not consummated.

- ***State-Chartered Savings Banks:*** There was no net change in the number of state-chartered savings banks in 2006. Two state-chartered savings banks reorganized into mutual holding companies.

The two state-chartered savings banks that reorganized into mutual holding companies were Florence Savings Bank, Florence into Florence Bancorp, MHC, and Salem Five Cents Savings Bank, Salem into Salem Five Bancorp. The Salem Five Cents Savings Bank reorganization into a mutual holding company and a subsidiary stock savings bank was part of a multi-step transaction involving the merger of Heritage Co-operative Bank, Salem, with and into Salem Five Cents Savings Bank.

Chicopee Savings Bank, Chicopee converted from mutual to stock form on July 19, 2006.

The Division notes that Lawrence Savings Bank, Lawrence changed its name to River Bank.

- ***State-Chartered Co-operative Banks:*** There was no net change in the number of state-chartered co-operative banks in 2006. There was one new state-chartered co-operative bank that opened for business during the year and one state-chartered co-operative bank that merged with and into a state-chartered savings bank. Five state-chartered co-operative banks reorganized into mutual holding companies.

The transaction involving the merger of one state-chartered co-operative bank into a state-chartered savings bank was the merger of Heritage Co-operative Bank, Salem with and into Salem Five Cents Savings Bank, Salem.

The five state-chartered co-operative banks that reorganized into mutual holding companies were: Butler Bank, Lowell into Butler Bancorp, MHC; Weymouth Bank, Weymouth into Wessagussett Mutual Holding Company; Braintree Co-operative Bank, Braintree into Braintree Bancorp MHC; Cape

Cod Co-operative Bank, Yarmouth Port into Coastal Affiliates, MHC; and Fidelity Co-operative Bank, Fitchburg into Fidelity Mutual Holding Company. There were also three mid-tier holding companies formed as part of these transactions: Butler Bancorp, Inc. was formed as the mid-tier holding company for Butler Bank and Butler Bancorp, MHC; Wessagussett Bancorp, Inc. was formed as the mid-tier holding company for Weymouth Bank and Wessagussett Mutual Holding Company; and Life Design Holding Company was formed as the mid-tier holding company for Fidelity Co-operative Bank and Fidelity Mutual Holding Company.

A new state-chartered stock co-operative bank, Patriot Community Bank, Woburn, opened for business on April 3, 2006. The Bank's primary service area is Woburn and Lexington, and it also services the surrounding communities of Arlington, Bedford and Medford. The Division notes that the Bank received the first part of its approval by the Board of Bank Incorporation, the approval of the certificate of public convenience and advantage, in 2005.

Ware Co-operative Bank, Ware changed its name to FamilyFirst Bank.

- ***State-Chartered Trust Companies:*** There was a net increase of one state-chartered trust company during 2006. One new state-chartered trust company opened for business.

The new state-chartered trust company, the Bank of Cape Cod, Hyannis, opened for business on September 13, 2006. The Bank's primary service area is Barnstable County.

- ***State-Chartered Credit Unions:*** There was a net decrease of three state-chartered credit unions during the year. Three state-chartered credit unions merged with and into other state-chartered credit unions. In addition, two federally-chartered credit unions merged with and into state-chartered credit unions.

There were three transactions in which state-chartered credit unions merged with and into state-chartered credit unions, including two state-chartered credit unions which merged into the same state-chartered credit union. The three transactions were as follows: Peoples Community Credit Union, Fitchburg and Crobank Credit Union, Westminster both merged with and into Workers' Credit Union, Fitchburg; and Embeco Credit Union, East Longmeadow merged with and into Premier Source Credit Union, Springfield.

The two transactions in which federally-chartered credit unions merged with and into state-chartered credit unions were: Bakery Drivers Federal Credit Union, South Boston with and into Tremont Credit Union, Boston; and Braintree Educators & Municipal Employees Federal Credit Union, Braintree with and into Quincy Credit Union, Quincy.

Metropolitan Credit Union, Chelsea changed its name to Metro Credit Union.

- ***Summary of Institutions and Branches:*** At the end of the year, the state-chartered banking system consisted of 70 savings banks, 69 co-operative banks, 26 trust companies and 98 credit unions. The Division also has one building improvement association under its jurisdiction, which is included in this annual report.

There was a net increase of 32 branches of state-chartered financial institutions, from 1,173 branches to 1,205 branches. There was a net increase of 24 state-chartered savings bank branches, from 402 branches to 426 branches. There was no net change in the number of state-chartered co-operative bank branches, which totaled 112 branches in both years. There was a net decrease of one state-chartered trust company branch, from 561 branches to 560 branches. There was a net increase of 9 state-chartered credit union branches, from 98 branches to 107 branches.

- ***Mutual Holding Companies:*** There were seven new mutual holding companies formed in 2006. As noted above, during the year, two state-chartered savings banks reorganized into mutual holding companies. In addition, five state-chartered co-operative banks reorganized into mutual holding companies, three of which also had mid-tier mutual holding companies.
- ***De Novo Banks:*** Two new state-chartered financial institutions opened for business during the year. Patriot Community Bank, Woburn, a state-chartered stock co-operative bank opened for business on April 3, 2006. Patriot Community Bank's primary service area is Woburn and Lexington, and it also services the surrounding communities of Arlington, Bedford and Medford. Bank of Cape Cod, Hyannis, a state-chartered stock trust company, opened for business on September 13, 2006. The Bank's primary service area is Barnstable County.

V. LEGISLATIVE AND REGULATORY SUMMARY

Legislation

Many significant banking bills covering a broad array of subjects were signed into law in 2006. One bill modernized the mortgage discharge statute. Another prohibited the practice whereby an entity solicits a customer of a financial institution and prominently uses the name of the financial institution in the solicitation. Other legislation modernized corporate governance provisions for state-chartered banks and loan provisions for certain officers and directors. There was also legislation to modernize the statute relative to the Central Credit Union Fund, Inc., which included provisions for merger and liquidation transactions. In addition, legislation was signed to modernize check clearing procedures and amend the statute governing certain electronic banking laws to be in accordance with

federal provisions. Legislation relative to lending limits for certain state-chartered banks with an international business holding obligations of foreign countries was also signed into law. Legislation authorizing a process for the conversion of a state-chartered credit union to a mutual savings bank, a mutual co-operative bank, or a mutual federal savings and loan association or a federal savings bank also became law.

Following are brief summaries of bills that were signed into law in 2006:

- **Chapter 63 of the Acts of 2006, An Act Providing Remedies to Consumers for Clearing Title after Payoff of Mortgages**

The purpose of Chapter 63 of the Acts of 2006 ("Chapter 63") was to modernize the mortgage discharge statute and to set forth other actions to ensure clear title to property. Chapter 63 expanded the methods available to both consumers and closing attorneys for discharging a mortgage after the mortgage has been paid off by the borrower. Chapter 63 also established a process and time frame for requesting and receiving payoff statements from mortgage holders. In addition, it reduced the time for the enforcement through foreclosure of a mortgage from 50 years from the recording of the mortgage to 35 years from the date such mortgage was recorded if no term is stated in the mortgage.

- **Chapter 209 of the Acts of 2006, An Act Relative to the Use of the Name of Financial Institutions**

The main thrust of Chapter 209 of the Acts of 2006 ("Chapter 209") was to address in statute the practice whereby a separate, unaffiliated entity solicits a customer of a financial institution and prominently uses the name of the financial institution in the solicitation. The placement as well as repeated references to the financial institution led some consumers to believe that the solicitation was from the financial institution; was from an affiliated entity; or that the financial institution had sold information about the consumer to the entity. Often these solicitations resulted in confusion to the consumer and damage to the reputation of the financial institution. These issues were seldom negated by the later identification of the entity or a statement in small print that the entity is not affiliated with the financial institution. Financial institutions have brought action in court on such solicitations, and in one case an entity brought court action against the Division to negate a cease activities letter sent by the Division. These solicitations often involved mortgage loans with another entity looking to refinance a consumer's existing loan or to provide mortgage insurance on the existing loan.

The primary purpose of Chapter 209 was to prohibit any person, domestic or foreign corporation, partnership, association, limited liability company or similar entity ("entities") from using the name, trade name, or trademark of any bank, federal bank, federal branch, foreign bank, out-of-state bank or out-of-state branch or out-of state federal bank, as defined in section 1 of chapter 167, or any federal credit union as defined in section 1 of Massachusetts

General Laws chapter 171, or any subsidiary thereof (collectively "financial institutions"), in any written or oral advertisement or solicitation for products or services without the express written consent of the financial institution. For the purposes of this chapter, Chapter 209 defined the words "solicitation" and "advertisement" jointly as an email, direct mail solicitation, or oral solicitation to a specifically identified consumer or which contains specific information on the account or loan of a specifically identified consumer.

- **Chapter 221 of the Acts of 2006, An Act Relative to State-Chartered Banks**

The goal of Chapter 221 of the Acts of 2006 ("Chapter 221") was to modernize corporate governance for state-chartered banks and loan provisions for certain officers and directors. Chapter 221 also included other provisions relative to timing of meetings, officials attending meetings and the reports presented at such meetings. Chapter 221 amended the individual statutes governing corporate governance issues and increased the dollar amount of loans to officers of state-chartered savings banks, co-operative banks and trust companies.

- **Chapter 277 of the Acts of 2006, An Act Relative to a Certain Corporate Credit Union**

The purpose of Chapter 277 of the Acts of 2006 ("Chapter 277") was to modernize the statute relative to the Central Credit Union Fund, Inc., ("the Central Credit Union Fund") which included provisions for merger and liquidation transactions for the Central Credit Union Fund. Chapter 277 set out an orderly process by which the state-established corporate credit union, the Central Credit Union Fund, could liquidate its affairs or continue its operations through merging with another corporate credit union anywhere in the United States. Under the merger authority the Central Credit Union Fund could merge out of existence or be the continuing corporate credit union. The Act also added to the list of services that the corporate credit union could provide to its member credit unions through a Credit Union Service Organization. Such services include but are not limited to item processing and financial and investment advisory services.

- **Chapter 279 of the Acts of 2006, An Act Relative to the Processing of Funds**

Chapter 279 of the Acts of 2006 ("Chapter 279") had two separate and distinct goals, modernizing the check payment system, known as Check 21, and amending the statute governing electronic funds transfers. The Act facilitated the implementation of the federal Check Clearing for the 21st Century Act, which Congress enacted in 2003. One reason the federal Act passed was in recognition that the nation's economic recovery in the aftermath of a terrorist attack or a natural disaster could be physically disrupted by the need to move paper checks. The Act amended the unique Massachusetts law that required banks and credit

unions to return to the depositor all cancelled checks upon the request of the depositor. The revised law limited the number of checks to be returned. The Act also amended the Commonwealth's Electronic Funds Transfers Act to have Massachusetts provisions in three specific points consistent with federal law. The major consumer protection provision relative to the maximum \$50.00 liability for consumers for unauthorized transfers remained unchanged.

- **Chapter 370 of the Acts of 2006, An Act Relative to Lending Limits**

Chapter 370 of the Acts of 2006 ("Chapter 370") increased limitations relative to the authority for certain state-chartered banks with an international business to hold obligations of foreign countries. Prior to passage of Chapter 370, the Massachusetts statute governing limitations on obligations, section 6 of chapter 167E of the General Laws, established that the obligations of a foreign government or a political subdivision thereof were limited to 10% of the state-chartered bank's capital, and that the obligations of all foreign governments and the political subdivisions thereof shall not exceed in the aggregate a total of 50% of the bank's capital. The Act was only applicable to a state-chartered bank with a global custody business which is well-capitalized and has at least \$5 billion of foreign currency denominated deposits. For all other state-chartered banks the existing statutory limitations remained in effect.

- **Chapter 392 of the Acts of 2006, An Act Relative to Credit Unions**

Chapter 392 of the Acts of 2006 authorized a state-chartered credit union to convert to a mutual savings bank, a mutual co-operative bank, or a mutual federal savings and loan association or federal savings bank under a process set out in the Act. Such a conversion by a state-chartered credit union to a mutual bank requires a two-thirds vote of the entire board of directors of the plan of conversion and information statement to be sent to its members for approval of a majority vote of its membership. The Commissioner shall approve the contents of the plan of conversion as well as the information statement at least 120 days before the special meeting of the members to vote on the conversion. Other requirements are set out in the statute.

Regulations

The Division amended four regulations and repealed one regulation in 2006, as follows.

- **209 CMR 38.00: Disclosure of Certain Information and Terms Relative to the Mortgage Application and Approval Process (Repealed)**

The purpose of 209 CMR 38.00 was to provide prospective mortgage borrowers and applicants with information on the residential first mortgage loan application and approval process, as well as information on certain charges and fees that they are likely to incur in obtaining a residential mortgage loan from a first mortgage lender. The reason for the repeal of the regulation was that the statutory authority for 209 CMR 38.00, section 17D of chapter 184 of the Massachusetts General Laws, was repealed by Chapter 63 of the Acts of 2006, *An Act Providing Remedies to Consumers for Clearing Title after Payoff of Mortgages*. The federal Real Estate Settlement Procedures Act (“RESPA”) governs a number of mortgage loan disclosures and notice requirements set forth in said section 17D. The elimination of these duplicate disclosure and notice requirements saved both time and expense for mortgage lenders. The effective date for the repeal of said section 17D was July 1, 2006.

- **209 CMR 42.00: The Licensing of Mortgage Lenders and Mortgage Brokers**

The purpose of 209 CMR 42.00 is to establish a framework for the licensing and supervision of mortgage lenders and mortgage brokers. The purpose of the amendments, which were filed as Emergency Regulations effective September 8, 2006, was to amend 209 CMR 42.12A to add 10 prohibited acts and practices to the regulation. The permanent amendments, which became effective December 1, 2006, included a further amendment to 209 CMR 42.12A(16) to state that violations of prohibited acts and practices would also constitute grounds for administrative fines or penalties. Other clarifications were also made. This additional amendment became effective on December 1, 2006. All other provisions continued in effect from September 8, 2006.

The regulations add the following provisions as a prohibited act or practice for a mortgage broker or mortgage lender:

- To have a consumer sign a blank or incomplete mortgage loan application or mortgage loan documents.
- To sign a consumer’s name to a mortgage loan application or mortgage loan documents on behalf of a consumer.

- To falsify income or asset information on a mortgage loan application or mortgage loan documents.
- To make false promises to influence, persuade or induce a consumer to sign a mortgage loan application or mortgage loan documents.
- To pressure or coerce a consumer to sign a mortgage loan application or mortgage loan documents by misrepresenting or omitting crucial information about the terms of the mortgage.
- To discourage a consumer in a mortgage loan transaction from seeking or obtaining independent legal counsel or legal advice.
- To engage in a pattern or practice of failing to make any disclosure to a consumer required by and at the time specified by any applicable state or federal law, regulation or directive.
- To fail to disclose the type and number of its license in an advertisement.
- For an employee or a person associated with and acting under the direction of a mortgage broker or a mortgage lender to advertise residential mortgage loan services without naming the licensee and disclosing the license number of the mortgage broker or mortgage lender under whose license the individual is acting.
- To require a consumer to use the real estate brokerage services of a particular entity, agent or broker.
- A violation of 209 CMR 42.12A shall constitute grounds for the issuance of a cease and desist order under M.G.L. c. 255E, § 7; shall constitute grounds for license suspension or revocation under M.G.L. c. 255E, § 6 and shall constitute grounds for an administrative fine or penalty under M.G.L. c. 255E, §§ 11 and 12.

• **209 CMR 46.00: Community Reinvestment**

On September 1, 2005, federal regulatory amendments to CRA regulations took effect. The Division filed Emergency Regulations to amend the state CRA regulation, 209 CMR 46.00, to maintain regulatory consistency between the federal and state CRA regulations, which also became effective on September 1, 2005. Pursuant to Massachusetts General Laws chapter 167, section 14, any amendment to the CRA regulations, other than Emergency Regulations, must be submitted to the Legislature for 90 days prior to filing final amendments. These amendments were filed

with the Clerk of the House of Representatives on October 11, 2005, printed as House 4439 of the 2005-2006 Session, and referred to the Joint Committee on Financial Services. The amendments were refiled with the Secretary of State as Emergency Regulations on December 1, 2005 because the Legislature's 90-day review period had not expired and took effect on that date in order to prevent any gap between the expiration of the Emergency Regulations and the filing of the Notice of Compliance making the amendments permanent. The amendments were refiled with the Secretary of State again as an Emergency Regulation on February 28, 2006. On March 9, 2006, a Notice of Compliance was filed with the Secretary of State stating that all requirements for public review of the amendments had been met. By doing so, the effective date of the amendments reverted to the initial filing date, making the amendments effective as of September 1, 2005.

- **209 CMR 49.00: Insurance Sales by Banks and Credit Unions**

209 CMR 49.00 governs the sale of insurance products by banks, credit unions and certain other lenders in the Commonwealth. Amendments were implemented in response to a federal court decision whereas certain provisions of state law were determined to be preempted by federal law.

- **209 CMR 50.00: Parity with Federal Credit Unions**

The amendments to the credit union parity regulations expanded lending and investment authorities for state-chartered credit unions in order to continue to make the state charter more competitive. The amendments were as follows:

- A. ***Lending and Participation Authorities***

- Amended the lending authorities in 209 CMR 50.14 requiring notice to the Division by credit unions that had previously received approval under the parity regulations to remove the notice requirements and to authorize each type of loan to be made up to 10% of the credit union's total unimpaired capital and surplus, or a given dollar amount, whichever is greater;

- Amended the lending authorities in 209 CMR 50.15, which set forth additional notice authorities for credit unions that have not previously received approval under the parity regulations, to authorize each type of loan to be made up to 10% of the credit union's total unimpaired capital and surplus, or a given dollar amount, whichever is greater;
- Authorized boat, camper, trailer and recreational vehicle loans to be indirect loans;
- Amended consumer loan participation authority to extend beyond the Commonwealth and include government agencies;
- Amended non-residential loan participation authority to extend beyond the Commonwealth and include government agencies;
- Amended residential mortgage loan definition to include manufactured home loans;
- Added the term "recreational vehicles" to the authorities for 20-year loans for boats, campers and trailers; and
- Clarified mortgage loan authority to include subsequent liens, not just second liens.

B. *Investment Authorities*

- Added additional investment authorities, including repurchase transactions, securities lending transactions, borrowing repurchase transactions, including reverse repurchase transactions, and federal funds from any financial institution insured by the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA"); and
- Increased investments in land, building, improvements, and equipment from \$300,000 to \$500,000.

C. *Miscellaneous Provisions and Technical Amendments*

- Added new provision to define organization members to include limited liability companies, limited partnerships, and limited liability partnerships;

- Amended CUSO provision to allow credit union service organizations (“CUSO”) to incorporate in other states;
- Added authority to receive health savings accounts as defined;
- Added a new category of non-member deposits to the limitations specified;
- Amended the definition of automobile to delete the \$50,000 limitation for certain loans;
- Added authority for interest-bearing corporate checking accounts to provision for Regulatory Flexibility, which for qualified credit unions does not require notice to the Division;
- Added authority for treasury tax and loan depositories to provision for Regulatory Flexibility, which for qualified credit unions does not require notice to the Division;
- Changed authority for monetary instrument services for members from notice to the Division to no notice;
- Changed authority for stored value cards from notice to the Division to no notice;
- In addition, there were numerous technical corrections, including but not limited to amending automobile lending provisions to reflect that the amount may exceed Manufacturer’s Suggested Retail Price consistent with safety and soundness limits and consistent with a prior opinion of the Division; changing 20-year manufactured home loans into 20-year mobile home loans, consistent with statutory language; and various other technical corrections.

TRUST COMPANIES

State-chartered trust companies remained financially strong during 2006, and welcomed its newest member, The Bank of Cape Cod. The industry's aggregate assets rose 6% in 2006 to \$166.2 billion. Net loans and leases increased 9%, while the aggregate securities portfolios grew 3%. Securities purchased under agreements to resell, trading assets, and investments in unconsolidated subsidiaries and associated companies also all increased in 2006. However, branch expansion within the sector was modest as premises and fixed assets rose only 2%. At the same time, deposits rose 7% and reflect the industry's efforts to grow its deposit base during this period. Additionally, federal funds purchased and other borrowings grew 81% and 14%, respectively, and helped fund overall growth. Total equity capital grew over 10% and stands at approximately \$14.3 billion.

In 2006, trust companies achieved 20% growth in earnings performance to \$1.9 billion. The growth was centered primarily in non-interest income, which grew 12%. Net servicing fees rose 182%, trading revenue increased 41%, and income from fiduciary activities grew 11%. Meanwhile, core earnings also experienced moderate growth as net interest income rose 6%. More specifically, interest income grew 31%, but was outpaced by the 57% growth in interest expense. Provision expense was also increased by 78% to \$78.9 million to accompany the growth in loans, while non-interest expense increased 7%. Finally, realized gains on securities fell 71% in 2006, but did not significantly impact the strong industry earnings performance for the year.

Overall, trust companies continued to perform in a solid manner amidst the challenging environment.

Trust Companies
Statement of Condition - December 31, 2006
(in 000's)

Assets

	12/31/2005	12/31/2006
Non Interest Bearing Balances	\$ 3,370,637	\$ 3,522,033
Interest Bearing Balances	11,404,506	5,379,276
Securities Held to Maturity	12,414,697	10,605,488
Securities Available for Sale	71,168,746	75,407,630
Federal Funds Sold	1,007,261	905,052
Securities Purchased Under Agreement to Resell	322,026	7,309,136
Loans and Leases Held for Sale	65,667	62,800
Loans and Leases, Net of Unearned Income	44,762,808	48,867,285
Allowance for Loan and Lease Losses	416,328	392,549
Net Loans and Leases	44,346,480	48,474,736
Trading Assets	2,815,110	3,814,819
Bank Premises and Equipment	1,026,936	1,046,998
Other Real Estate Owned	46,285	50,297
Investment in Unconsolidated Subsidiaries	56,584	100,856
Customers Acceptances Outstanding	1,650	0
Goodwill	3,381,258	3,424,698
Intangible Assets	589,738	513,519
Other Assets	5,019,003	5,574,669
Total Assets	157,036,584	166,192,007

Liabilities

Non Interest Bearing Deposits	16,605,814	14,870,277
Interest Bearing Deposits	89,589,980	98,234,307
Total Deposits	106,195,794	113,104,584
Federal Funds Purchased	1,879,978	3,406,803
Securities Sold under Agreement to Repurchase	20,682,674	17,519,340
Trade Liabilities	2,032,662	3,044,596
Other Borrowed Money	6,909,381	7,894,408
Subordinated Notes and Debentures	1,257,936	1,258,116
Other Liabilities	5,015,205	5,711,144
Total Liabilities	143,973,630	151,938,991

Equity

Minority Interest in Consolidated Subsidiaries	67,785	236
Preferred Stock	27,145	28,145
Common Stock	96,515	96,323
Surplus	4,541,990	4,604,716
Retained Earnings	8,779,868	9,940,109
Accumulated Other Comprehensive Income	(356,040)	(411,104)
Other Equity Capital	(94,309)	(5,409)
Total Equity Capital	13,062,954	14,253,016
Total Liabilities, Minority Interest and Equity Capital	157,036,584	166,192,007

Trust Companies
Statement of Income - December 31, 2006
(in 000's)

	12 /31/ 2005	12 /31/ 2006
Total Interest Income	\$ 5,733,691	7,511,277
Total Interest Expense	2,791,225	4,378,731
Net Interest Income	2,942,466	3,132,546
Provision for Loan and Lease Losses	44,286	78,917
Income From Fiduciary Activities	4,478,295	4,973,451
Service Charges	187,539	206,632
Trading Revenue	466,290	658,044
Investment Banking, Advisory, Brokerage fees and Commissions	50,286	47,578
Venture Capital Revenue	355	(588)
Net Servicing Fees	1,149	3,245
Net Securitization Income	-	-
Insurance Commission and Fees	66,987	45,043
Net Gains (Losses) on Sale of Assets	71,002	87,712
All Other Noninterest Income	889,983	957,090
Total Noninterest Income	6,211,886	6,978,207
Realized Gains (Losses) on Held-To-Maturity Securities	-	1,892
Realized Gains (Losses) on Available-For-Sale Securities	36,498	8,661
Salaries and Employee Benefits	3,150,281	3,533,200
Expenses of Premises and Fixed Assets	1,136,411	1,127,433
Goodwill Impairment Losses	-	3,482
Amortized Expenses and Impairment Loss For Other Intangibles	75,367	70,551
Other Noninterest Expense	2,201,289	2,297,015
Total Noninterest Expense	6,563,348	7,031,681
Income (Loss) Before Income Taxes	2,583,216	3,010,708
Applicable Income Taxes	880,973	1,105,590
Income (Loss) Before Extraordinary Items	1,702,243	1,905,118
Extraordinary Items	(107,520)	10,140
Net Income (Loss)	1,594,723	1,915,258